British Columbia Securities Commission

SERVICE PLAN

2003 - 2006

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GLOSSARY

Term	Description
Continuous Disclosure	Information prescribed by the securities laws that must be publicly disseminated and filed with the BCSC. This includes financial statements, quarterly reports, annual information forms, technical reports, material change reports, information circulars, proxy material, insider trading reports, and related material.
CSA	Canadian Securities Administrators: an association of the securities administrators of each Canadian province and territory.
Derivative	A security, such as an option, forward or futures contract, whose value is derived from the value of an underlying financial asset.
IDA	Investment Dealers Association of Canada
Insider disclosure	The legally required public disclosure by insiders of their securities transactions
Issuer	A company that has securities issued/outstanding, or is proposing to issue securities
MFDA	Mutual Fund Dealers Association of Canada
Registrant	A company or individual that is registered under the Securities Act to trade or advise in securities
Reporting Issuer	A company that has issued securities in a public offering. These companies are subject to the Continuous Disclosure requirements of securities laws.
SRO	Self-regulatory organization
TSX	The Toronto Stock Exchange

EXECUTIVE SUMMARY

Our vision is, by 2005, to make British Columbia the best place in North America to invest and raise capital. To achieve that, we must become leaders in securities regulation by being innovative, low cost and tough but fair.

We must strike a balance between protecting investors from fraudulent, abusive and unfair practices, and allowing market participants to pursue their economic interests without an excessive burden of regulation.

In the past year, several trends have emerged that have affected our regulatory approach. The volatility of world financial markets and a series of financial scandals have damaged investor confidence. The best way to build a market with integrity in which investors can have confidence is to address the major problems affecting the markets, and to pursue principle-based regulation.

We have identified five key problems:

1. Excessive regulatory burden on the securities market
2. Lack of compliance with disclosure requirements
3. Illegal market conduct
4. The need to enhance investor and industry education
5. The need to assess the effectiveness of the SRO system in British Columbia

We have developed solutions to deal with these problems. We have also established criteria to judge whether, at the conclusion of the planning period, our solutions have effectively addressed the problems.

Financially, the BCSC will be operating close to breakeven on an ongoing basis. We must remain cautious and vigilant to ensure that our financial position remains stable.

THE BCSC

We are the independent provincial government agency responsible for regulating trading in securities in British Columbia.

This Service Plan has been developed by senior management and approved by the Commission. The planning process identifies and evaluates the initiatives that will meet the needs of our stakeholders:

- Investors - both retail and institutional, who want to invest in fair and efficient markets.
- Issuers - who rely on the capital markets to fund growth and diversification.
- The securities industry - which serves both users and suppliers of capital.
- The legislature and provincial government - to whom we are accountable for conducting our affairs and administering the *Securities Act*.
- The public – who rely on the BCSC to ensure that the capital markets contribute to the economic well being of British Columbia.

We renew our three-year Service Plan annually, and submit it to Treasury Board as required under the *Securities Act*, our enabling legislation. It is a public document under the *Budget Transparency and Accountability Act*.

OUR VISION

Our vision is, by 2005, to make British Columbia the best place in North America to invest and raise capital. To do that, we must become leaders in securities regulation by being innovative, low cost and tough but fair.

OUR MISSION

The mission of the BCSC is to protect and promote the public interest by regulating trading in securities

(1) to ensure the securities market is fair, and warrants public confidence; and

(2) to foster a dynamic and competitive securities industry that provides investment opportunities and access to capital.

The dual mission of the BCSC requires that we strike a balance between protecting investors from fraudulent, abusive and unfair practices, and allowing market

participants to pursue their economic interests without an excessive burden of regulation. Effective regulation contributes to both aspects of the mission.

OUR MANDATE: HOW WE REGULATE

We set rules for fair play. Rules are one tool we use to maintain market integrity. Three examples are:

- The securities industry has enormous potential for conflicts of interest. Rules require industry to disclose conflicts and manage them in a way that protects the integrity of the market.
- If not properly supervised, markets are vulnerable to manipulation and other forms of abuse that defraud unsuspecting investors. Rules prohibit market fraud, manipulation, and misrepresentation and require disclosure of insider trades and short sales.
- Market participants do not always have equal access to information. Rules prohibit persons with privileged access to information from trading at the expense of those without that information.

We screen market participants. Firms that trade securities, advise investors or manage portfolios must be registered, maintain minimum capital and adhere to specified standards of conduct. Individual brokers, advisers and investment managers must be registered and meet proficiency requirements.

We set disclosure standards for market participants. A company raising capital must disclose to investors all material facts about its business. It must also keep investors informed by sending them quarterly and annual financial statements and by promptly disclosing material changes affecting the business.

We police the markets for misconduct. We examine registered firms and monitor disclosure of publicly traded companies to ensure they are following the rules. We investigate frauds and market abuses. When we find misconduct, we sanction the persons responsible.

We educate investors and industry. We teach investors how to protect themselves before they invest their money. We help industry understand existing and proposed rules, so they can better comply with them. We use plain language to make the regulatory system accessible.

We oversee self-regulatory organizations. Together with the other securities regulators in Canada, we supervise the operations of national self-regulatory organizations. The major SROs are:

- *The Investment Dealers Association of Canada* (IDA) administers the registration of its member brokerage firms (including all participants in the Toronto Stock Exchange and TSX Venture Exchange) and regulates their conduct and capital adequacy.

- *The Mutual Fund Dealers Association of Canada* (MFDA) regulates the conduct and capital adequacy of mutual fund dealers.

- *Market Regulation Services* regulates securities trading on Canadian exchanges and other marketplaces by participating brokerage firms and helps the exchanges oversee their listed companies.

EFFECTIVE REGULATION

We believe that effective regulation of the securities markets involves an appropriate combination of:

- Principles-based regulation;
- Active monitoring of compliance;
- Investor and industry education; and
- Decisive enforcement, including effective administrative, civil and criminal processes.

OUR CORE ATTRIBUTES

We focus on four core attributes of employee performance to ensure that we efficiently accomplish our mission:

Drive for Results –
Focus on results and achievement; hold high expectations and push for high levels of accomplishment.

Effective Communication –
State our expectations clearly, express our ideas well, and keep others informed.

Problem Solving –
Think ahead and plan.

Teamwork and Cooperation –
Work with each other to maximize our talents and accomplish our goals.

OUR PLANNING MODEL

The BCSC follows a planning model developed by Malcolm K. Sparrow, a professor at Harvard University's John F. Kennedy School of Government. This model focuses our regulatory approach strategically on risk control, compliance management, and regulatory problem solving.

The risk control competency involves an organization's ability to identify significant risks, problems or patterns of non-compliance and to design solutions that reduce, mitigate or eliminate these problems. This competency involves:

- A systematic identification of important hazards, risks or patterns of non-compliance;
- An emphasis on risk assessment and prioritization as a rational and publicly-defensible basis for selecting among identified risks;
- A project-based approach, offering the opportunity to design and implement creative, tailor made solutions for each selected problem;
- The utilization of a broad range of tools (including, but not limited to, enforcement) in fashioning responses to specific risks;
- A periodic evaluation of the outcomes or impacts of the designed solution;
- Flexible resource allocation, enabling the BCSC to open and close projects in response to changing conditions and priorities.

This Service Plan is based on the conviction that our success depends on our ability to "*pick important problems, and fix them.*"[1] The Service Plan uses as its model a staged approach to picking the important problems and addressing them:

1. Define each problem precisely
2. Determine how to measure its impact
3. Develop a solution for the problem, using a mix of tools
4. Implement the solution, with periodic monitoring, review and adjustment
5. Close the project, allowing for long-term monitoring and maintenance.

Our goals and objectives are to solve the problems that we have identified. The key strategies for dealing with the identified problems are the solutions that we have described in this Service Plan.

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[1] Malcolm K. Sparrow; *The Regulatory Craft: Controlling Risks, Solving Problems and Managing Compliance*, Brookings Institution Press, 2000, page 132

DEVELOPMENT OF THIS SERVICE PLAN

Our formal planning process for the development of this Service Plan has included significant input from our Securities Law Advisory Committee (SLAC) and the Securities Policy Advisory Committee (SPAC), two external groups of advisors with business and legal expertise. We discussed with the committees the emerging issues in markets and regulation. We also discussed the problems identified in last year's Service Plan and assessed whether we had sufficiently addressed those problems.

Each division of the BCSC has its own Operating Plan, which details how its operations will contribute to the BCSC's strategy and Service Plan in the coming year. Copies of these operating plans are available by contacting the BCSC's enquiries line, at (604) 899-6854 or by emailing enquiries@bcsc.bc.ca

LINK TO THE GOVERNMENT'S STRATEGIC PLAN

The BC government's Strategic Plan identifies three goals:

1. A strong and vibrant provincial economy;
2. A supportive social infrastructure; and
3. Safe, healthy communities and a sustainable environment.

Our Service Plan identifies that our vision is, by 2005, to make British Columbia the best place in North America to invest and raise capital. If we achieve our vision, we will be making a positive contribution to the attainment of the government's three goals.

STRATEGIC SHIFTS SINCE 2001

There have been no major strategic shifts since 2001, when the BC government reviewed our mandate through the core services review process. Our deregulation project, approved in that process, has assumed a major role in the future direction of the BCSC. This project is described on page 11.

THE PLANNING CONTEXT

The following major trends affect the planning context in ways that we describe below.

Trend	Response	Plan Reference
The world's economy has slowed. Public markets have been highly volatile and capital raising has become more difficult.	As markets have become more volatile, investors' expectations for accurate and up-to-date information have increased. The costs of the regulatory system, in general, have also become heavier for market participants to bear. We must take steps to alleviate this burden.	Problem 1 Problem 2
Individual investors have been hesitant to invest new funds in the public equities market. There has been a flight of capital to other investment vehicles as a result.	Investors may become vulnerable to inappropriate investments in this environment. We must watch for, and take action against, market participants who take advantage of this vulnerability. We must give investors the knowledge they need to protect themselves.	Problem 3 Problem 4
British Columbia's public junior capital markets are suffering from a lack of investor interest and generally low levels of investor confidence. It is more difficult for junior companies to raise capital.	We must encourage a climate that fosters investor confidence and reduces the regulatory burden without decreasing investor protection.	All problems
More British Columbians are taking responsibility for their own investment decisions, including their retirement planning.	We must take steps to target education to potentially vulnerable investors in British Columbia.	Problem 4

The business of securities trading and capital raising has become highly competitive on a global scale. There have been calls to make Canada's system of securities regulation more efficient and effective.	We must promote a securities market that is competitive and efficient, while ensuring effective protection of the investing public.	Problem 1
Technology and competition are changing the structure of markets and the roles of intermediaries. In particular, major market consolidations have affected the junior capital markets in British Columbia.	We must support the revival of British Columbia's junior capital markets.	Problem 1 Problem 2 Problem 5
The number of SROs and the character and extent of SRO regulation in the securities markets have changed radically.	We must review the effectiveness and efficiency of the SROs in protecting market integrity in British Columbia.	Problem 3 Problem 5

Because of these trends, we have identified five key problems in the upcoming planning cycle. We intend to address these problems through our major strategic initiatives over the next 3 years.

1. Excessive regulatory burden on the securities market

Two years ago, the BCSC established our Deregulation Project because we believed that our legislation, rules, regulations and policies have become too voluminous, complex and prescriptive. They impose significant costs on industry and do not provide the best protection for investors. Industry and its advisers told us they were overwhelmed with the accumulation of rules, the associated costs, and other regulatory burdens.

The BC government also has a government-wide deregulation initiative that requires all government agencies to reduce their regulatory requirements by one-third. As of June 5, 2001, the reference date for the initiative, the BCSC administered 21,316 regulatory requirements, which means we must eliminate 7,105.

Meanwhile, corporate governance and financial reporting scandals have erupted in the United States. In response, the US Congress passed the Sarbanes-Oxley Act, the US Securities and Exchange Commission adopted a series of consequential and other new rules, and the New York Stock Exchange adopted significant changes to its listing requirements. These measures impose a host of new and costly regulatory requirements on issuers subject to US rules.

The high profile of the US scandals and the legislative and regulatory response has led some to call for similar action in Canada. They are looking for new prescriptive rules to address these problems.

The regulatory approach we have adopted in our deregulation initiative is principles-based. We plan to establish broad principles of conduct accompanied by guidance, instead of the detailed and prescriptive requirements of rule-based regulation. We believe principles-based regulation provides more effective investor protection because it focuses market participants on the question of what is right for investors and the markets, rather than on the details of the rules. Rule-based regulation creates a loophole mentality that leads people to seek ways to avoid the rules, rather than comply with the spirit behind them. A principles-based approach can create a system of regulation that is effective, efficient and adaptable to changing market conditions.

The US scandals and the ensuing calls for more rules have not persuaded us that we should change our regulatory approach. The US scandals are attributable mostly to breaches of existing rules, abusive conduct that was arguably legal within the "loopholes" under a rule-based system, and general ethical and governance failures. None of these is a reason to depart from our approach. In fact, we believe that the US scandals demonstrate that a system of principles-based regulation, backed up by diligent enforcement and education, would provide a more effective system of regulation and would be less costly for honest market participants.

We are not alone in this view. In the months that followed the US scandals, many respected observers from industry, the investment community and other regulators have argued in favour of principles-based regulation, and cited the scandals as evidence of the shortcomings of rule-based systems.

We do not believe we can assume that scandals like those in the US could not happen in Canada, but neither do we believe that relying on new complex rules as the primary tool for preventing them would be effective.

Fundamentally, our challenge remains the same: do what best protects investors and market integrity and provides low-cost regulation to market participants. Finding the right balance is key to an efficient capital market that attracts both businesses and investors.

2. Lack of compliance with disclosure requirements

Investors and other capital market participants rely on complete, accurate and timely disclosure. Results of our continuous disclosure reviews indicate that the quality of disclosure, while getting better, still needs improvement.

Problems include inadequate management discussion and analysis in quarterly and annual reports, non-compliance with mineral project disclosure standards, and failing to disclose material information.

Our goal is to make sure the public companies we regulate comply with their continuous disclosure obligations. We will achieve this goal through monitoring, education, and compliance initiatives

This problem ties in to the key elements of BC's simplified and streamlined approach to regulation. The proposed solutions will help ensure that investors have the information they need to make responsible investment decisions, and that there are consequences for companies, directors and officers that do not comply. We are moving toward a system that focuses less on prospectus disclosure and more on the maintenance of high standards of continuous disclosure. To make this work, we must give market participants reason for confidence that disclosure is complete, accurate and timely.

3. Illegal market conduct

Deregulation does not reduce the need to deal quickly and decisively with misconduct. As securities laws are streamlined and simplified, we must focus on the continuing importance of enforcement as a primary regulatory tool.

To be effective, enforcement must be timely enough to be always tackling *current* market problems, thereby sending prompt signals to other market participants, and the investing public. Enforcement activities must also be tailored to the individual circumstances of each case, recognizing the importance of taking prompt action by way of temporary orders, segmenting cases, and moving cases involving major misconduct "out of the queue" if necessary.

As part of our regulatory strategy of backing up our system of principles-based regulation with enhanced enforcement, we must pursue improved access to and cooperation with, the criminal justice system.

4. The need to enhance investor and industry education

Investor and industry education is an essential element of our strategy. It is a key tool for protecting investors and market integrity. We show investors how to protect themselves before they invest their money. We help industry understand existing and proposed rules, so they can better comply with them.

Over the past several years, the BCSC has become more active in educating investors and industry. However, we can be more effective in fulfilling our mandate if we increase our use of education, in combination with our other regulatory tools, to identify and solve risks, problems and patterns of non-compliance that threaten investors and market integrity.

Deregulation will place new responsibilities on both investors and industry. Investors will need to understand better their rights and responsibilities. Industry will need to understand that our new regulatory system will be based on principles – what is right and wrong – rather than prescriptive rules, and will have to learn how to ensure compliance under the new regime.

Ultimately, enhanced education programs can help us improve compliance and provide better protection for investors.

5. The need to assess the effectiveness of self-regulatory organizations

The SRO landscape has changed dramatically in a relatively short period. In only the past 3 1/2 years, we have seen the following changes:

- the consolidation of the exchanges
- the conversion of the TSX into a for-profit, public company
- the extension of the IDA's member regulation responsibilities
- creation of two new national SROs – Market Regulation Services and the MFDA.

The number of SROs and the character and extent of SRO regulation in the securities markets have changed radically. Our reliance on SROs to regulate market conduct is increasing. In some areas, our role has shifted from direct regulation to SRO oversight, and from primary responsibility for one regional based SRO to shared oversight of three national SROs.

The heavy reliance on SROs increases the risk inherent with all self-regulatory models - conflicts of interest. Questions continue regarding the effectiveness of the securities industry SROs in areas such discipline and enforcement.

Our challenge is to ensure that our reliance on the SROs as our agents for regulation is justified, and that:

- appropriate benchmarks are set and the SROs are held to those standards
- oversight of the SROs is co-coordinated and consistent within the BCSC and within the CSA
- the advantages of SRO regulation are achieved and the drawbacks are minimized
- the BCSC remains an effective agent of change in the national SRO context

RESPONSES TO PROBLEMS

To succeed, the BCSC must fix the problems we have identified. For each problem, we have identified solutions in the section that follows.

Problem 1: Excessive regulatory burden on the securities market

Solutions

1. Deregulation and Uniform Securities Law Projects

We will continue the BCSC's Deregulation Project, which began in 2001. The Project has two goals:

- Establish a regulatory system that imposes on the securities industry the minimum regulatory burden necessary to provide investor protection and market integrity.

- Ensure that regulatory simplification in British Columbia does not unduly compromise the principle of national uniformity.

The Deregulation Project is taking a zero-based approach to all regulatory instruments. We are eliminating unnecessary requirements and simplifying surviving requirements when it makes sense to do so. The overall objective is to create a system of regulation that is effective, efficient and adaptable to changing market conditions. We are also creating new requirements when to do so is consistent with that objective.

So far, we have published three major proposal papers, conducted consultations with hundreds of market participants, and completed one cost-benefit analysis of our proposals (with several more under development). We are currently reviewing in detail all legislation and instruments in force in British Columbia.

Our goal is to meet or exceed the Government's target of eliminating at least one-third of existing regulatory requirements. In our case, that means eliminating 7,105 requirements from the 21,316 that existed on June 5, 2001 (the reference date for the government initiative).

We will also continue our participation in CSA's Uniform Securities Law Project (USL). The goal of USL is to produce legislation and rules to be adopted in identical form throughout Canada. We are urging our fellow regulators to seize the reform opportunity presented by USL to streamline and simplify regulation.

We believe that while uniformity is important, the primary source of cost and regulatory burden lies in the complexity of the rules.

For example, in a survey we conducted of issuers, we found that those surveyed spent 87% of their securities regulation compliance time in areas that are uniform in Canada. On the other hand, our cost-benefit analysis found that if our proposal for streamlining the capital-raising process were adopted, investors would get better disclosure and industry could cut costs by $170 million (five-year net present value).

We do not yet know how successful we will be in persuading our fellow regulators to pursue streamlining and simplification through USL. However, both that project and our Deregulation Project have a common deadline to deliver new legislation and rules to government: December 31, 2003.

Our government expects to see significant regulatory reduction and legislation drafted in plain language. If those goals are not met as part of USL, our challenge will be to deliver legislation that reflects our approach to regulation and meets the government's objectives but also allows market participants who are regulated nationally to operate in BC without barriers. We are confident we can meet that challenge.

Timing:

April 15, 2003	Publish for comment draft legislation and rules with explanatory paper
June 30, 2003	Conclude public comment period
December 31, 2003	Deliver draft legislation and rules to Government
March 31, 2004	Target date for proclamation of new legislation and adoption of new rules (actual date subject to government discretion and the legislative process)

Responsible Divisions:

Lead: Deregulation Project
All divisions are involved

Success Criteria for Problem 1

Delivery of draft legislation and rules to government by December 31, 2003.

Problem 2: Lack of compliance with disclosure requirements

Investors and other capital market participants rely on the maintenance of high standards of continuous disclosure. Our goal is to ensure the public companies we regulate comply with their continuous disclosure obligations so that investors can have greater confidence that disclosure is complete, accurate and timely.

We will achieve this goal through monitoring and review, education, and compliance initiatives. The solutions outlined below will help to give investors the information they need to make responsible investment decisions, and will impose consequences for companies, directors and officers that do not comply.

Solutions

1. Monitor and review disclosure

Our new disclosure compliance department will establish a monitoring system to improve significantly timely identification of:

- individual companies that have not complied with disclosure requirements
- systemic, recurring, industry wide disclosure problems

Our monitoring and review process will include:

- surveillance of various information sources including selected company filings and press releases, web sites, web casts, Internet chat rooms, newsletters, complaints and referrals, industry publications, and the general press.
- input from the investor and industry community, including groups such as the New Economy and Adoption of Technologies Committee (NEAT) and the Mining Technical Advisory and Monitoring Committee on the disclosure issues that most concern them.

We will create an integrated approach to disclosure reviews that involves all corporate finance departments and increases the number of disclosure reviews conducted by at least 50%. The existing continuous disclosure review program conducts in-depth reviews of the company's disclosure record. We will continue with this program but will expand our disclosure coverage by adding other types of reviews, for example, technical disclosure reviews by senior technical staff, issue-oriented reviews conducted by the office of the chief accountant and selective continuous disclosure reviews conducted in conjunction with prospectus and annual information form filings. The compliance department will also be an additional resource for disclosure reviews.

To improve our effectiveness at recognizing serious disclosure problems as quickly as possible, we will:

- add to our industry-specific knowledge through educational initiatives with industry and the investment community
- implement an integrated work-in-progress and tracking system for the division to identify areas where resources should be focused.
- identify new ways to optimize limited resources such as coordinating our continuous disclosure review activities with other jurisdictions
- refine our risk-based criteria for selecting issuers for disclosure review
- conduct investor surveys to determine if the information needs of investors are being met

Timing: Implement monitoring process and tracking system by June 30, 2003. Establish regular industry and investment community contacts and conduct our first investor surveys by September 30, 2003.

Responsible Division:
Corporate Finance

2. Educate issuers regarding disclosure

We will continue to educate companies, directors, officers, and their advisers on the nature and extent of their disclosure requirements by:

- providing guidance to individual companies selected for disclosure reviews
- developing and distributing information guides on disclosure rules and best practices
- participating in industry education forums

Our education initiatives will focus on problems identified through our monitoring system and disclosure review programs.

We will obtain feedback on the usefulness of our *Continuous Disclosure Updates*.

We will conduct initial assessments of mineral project disclosure to identify specific problems to target in our educational initiatives and to create a reference point to measure our effectiveness in improving compliance.

Timing: Distribute updates throughout the year as we identify topics. Participate in three industry forums by March 31, 2004. Complete initial baseline assessments by June 30, 2003. Complete a second assessment to measure effectiveness of educational programs by March 31, 2004.

Responsible Divisions:
Lead- Corporate Finance
Communications and Education

3. Implement an Effective Disclosure Compliance Program

Creating a compliance culture among directors and officers of public companies means that there must be consequences for those who are responsible for significant disclosure deficiencies and related market misconduct. The corporate finance compliance team will conduct reviews and initiate regulatory action on a timely basis. Sanctions may involve the removal of individuals as officers or directors, financial penalties or undertakings regarding future conduct.

Timing: 80% of the files opened during the year will be completed within four months. Completion means the file is closed (with or without action), there is a settlement proposal with the respondent, or a notice of hearing has been issued.

Responsible Divisions:
Lead- Corporate Finance
Enforcement will provide litigation support

Success Criteria for Problem 2
Our new monitoring and tracking system, the 50% increase in the number of reviews, education initiatives and visible compliance action will improve disclosure compliance.

We will measure our success through the following types of surveys:

1. We will obtain feedback from public companies and their professional advisors, and from users of disclosure information to test the quality of our reviews and education initiatives. We want to ensure that we have the right level of industry knowledge, and that we are focusing our resources on material issues that are important to companies and investors.

2. Users of financial information, including analysts will be asked whether the quality of disclosure has improved over the review period. At least 30% of survey respondents should indicate that they have observed a measurable improvement in the quality of disclosure by March 2004.

3. Staff will also continue to assess disclosure improvements. Internal surveys conducted by March 2004 will demonstrate an improvement in disclosure by at least 30% of companies.

Problem 3: Illegal Market Conduct

In today's environment in which securities laws are being streamlined and simplified, it is important to keep our focus on the continuing importance of enforcement as a primary regulatory tool. Deregulation does not reduce the need to deal quickly and decisively with misconduct.

To be effective, enforcement must be timely enough to tackle *current* market problems, thereby sending prompt signals to other market participants, and the investing public. This must always, however, be balanced by the requirements of accuracy and fairness. Finally, the deterrence impact of enforcement is in part a result of its "teeth". We need to ensure major *Securities Act* violations can be properly brought before, and dealt with by the criminal and civil justice systems in British Columbia.

We have developed three solutions to assist in keeping enforcement at the forefront of our investor protection initiatives, and achieve our goal of being "tough but fair".

1. Early Detection

A continuing challenge in enforcement is in learning about problems early and doing something about them. The Surveillance Intelligence Unit (SIU) was created two years ago to address the need to increase the sophistication of our market intelligence efforts. We had some notable successes, such as the Affinity Fraud Project. We have a number of established partnerships, and the original focus, looking at trends through more street contact, has now been enhanced by the Problem Identification project undertaken by the Executive Director. We need now to refocus SIU within Enforcement and exploit databases and new information sources.

Timing:

1. Restructure the Surveillance & Intelligence Unit and provide it with the necessary resources to carry out the new mandate; June 30, 2003.

2. Identify databases for review and use by the SIU to gather and analyze information; July 31, 2003.

3. In conjunction with the ongoing Problem Identification project, determine the most useful partnerships with other agencies to assist in surveillance and intelligence work, and contact them; September 30, 2003.

Success measure:
Discovering at least two cases for Enforcement review and action in the first 12 months after commencement of the new SIU mandate.

Responsible Division:
Enforcement

2. Flexible, Effective Case Processes

With the wide variety of illegal activity being dealt with in Enforcement— from simple illegal distributions, to internet fraud, boiler rooms, improper disclosure and registrant misconduct — we must avoid a "one size fits all" approach and custom-tailor the handling of cases to their individual circumstances.

We need to review our staffing resource allocation within the division, and case-handling priority parameters to ensure we are giving adequate weight to today's most pressing problems. Litigation is presently backlogged and the Case Assessment Team (CAT) is experiencing reduced complaint levels. We will review cases as they are received to determine whether we should short-circuit the process for rapid response using temporary orders, dividing the case, striving for early settlement with certain respondents, or other measures as required to realize an immediate market impact.

Timing:

1. Make recommendations to the Executive Director for improvements to the Commission's case handling processes, including reassessing the case priority scoring matrix; by June 30, 2003.

2. Implement any process changes by September 30, 2003.

Success Measure:

We will be successful if we are able to issue Notices of Hearing within 60 days of receiving an investigation brief, in 70% of the cases.

Responsible Division:
Enforcement

3. Criminal Deterrence

An effective system of deterrence against securities market misconduct includes a balance among regulatory enforcement, civil remedies and criminal enforcement. The criminal justice system is not providing an effective deterrent against securities market crime.

We need a concerted effort from governments to rectify systemic problems and make criminal prosecution a more effective contributor to deterrence. Most members of the public, including many significant stakeholders, do not understand the different roles and responsibilities of the BCSC, which is responsible for regulatory enforcement, and the criminal justice authorities and courts, which are responsible for criminal enforcement. Public awareness is an essential component of any strategy to effect change and make criminal enforcement more effective.

To meet this goal we will develop a communications strategy and a plan to work with stakeholders and those with authority to fix systemic problems to make criminal enforcement a more effective deterrent.

Responsible Division:

Office of the Chair
Enforcement
Communications

Timing:

We will:

1. develop and implement a securities related criminal and quasi-criminal prosecutions monitoring process by June 30, 2003

2. identify and analyze the systemic problems that impair the effectiveness of criminal deterrence by October 30, 2003

3. develop a communications strategy and a plan to target systemic problems and to create a reference point for measuring improvements in criminal deterrence by December 31, 2003

Success Measure:

We will be successful if we recommend solutions to those with authority to fix systemic problems affecting criminal deterrence by March 31, 2004

Problem 4: The need to enhance investor and industry education

We have stepped up our investor and industry education activities in the past few years. However, we need to expand them further and to integrate them more closely with our other regulatory activities to ensure that we apply the most effective combination of tools to solving market problems.

We can make our regulatory efforts more effective by:

- identifying vulnerable investor groups and targeting educational activities to help them protect themselves from fraudulent, abusive, and unfair practices, and
- helping industry to understand our regulatory principles and rules and how to comply with them.

Solutions:

1. Increasing public awareness of the BC Securities Commission and its work

Public awareness is an essential part of educating investors to protect themselves in the marketplace. The better our audiences understand who we are and what do, the more likely it is that they will accept our educational messages. To increase our effectiveness in reaching those investors we have identified to be most in need of our help, our awareness-raising efforts must be focused on supporting the educational initiatives we have determined to be priorities.

Experience has shown us that when we set out to raise awareness of our programs, we are most successful when the context and information have direct relevance to the groups we are targeting. Our audiences need to know the Commission can provide them with valuable "news they can use." To meet our goal, we will explore ways to use this approach more consistently. We will also test levels of awareness in our target markets to give us a better understanding of each audience's knowledge of the Commission and its role. We will then develop a tailored strategy and action plan for increasing public awareness to help us better disseminate our messages.

Responsible Division:
Communications and Education

Timing: By June 30, 2003, present a public awareness plan to the Commission.

2: ***Develop a protocol for disbursing funds from the BCSC Education Fund***

The *Securities Act* requires that we use our Education Fund to promote investor and industry knowledge. We have mainly used it in a reactive way, to support the ideas and initiatives of others, but we now plan to use the Fund to support education initiatives that we have designed to meet the BCSC's goals. In order to do this, we must develop a protocol for the Fund. The protocol would include criteria for the disbursement of funds, monitoring of funded projects and assessment criteria.

Responsible Divisions:
Executive Director (Lead)
Communications and Education

Timing: Approval of new protocol by Commissioners by May 30, 2003

Success Measure: Adoption of a new protocol

3. We will develop criteria to determine what kinds of partnerships we will pursue to further our goals

Partnerships are essential to achieve our education goals for investors and the securities industry. Our goal for investors is to help vulnerable groups better understand securities markets and assume more responsibility for protecting themselves against fraud and inappropriate investing. Our goal for industry is help its members understand the rules and the ultimate benefits of complying with them.

Well-founded partnerships within both those groups allow us to reach larger audiences in a more cost-efficient manner by working with organizations that have existing relationships and lines of communication with our target audiences. Through the right strategic alliances, we can further expand our activities and leverage the resources and networks of others.

We will develop criteria to determine which partnerships will best help us reach investors and industry in the most economical and efficient manner while maintaining credibility and reliability in our messages.

Responsible Division:
Communications and Education

Timing: Approval of criteria by the Commission by June 30, 2003.

Success Measure: Adoption of new criteria

4. Undertake research to guide our education activities

As we implement our education strategy, research is key in keeping the strategy current and relevant. We will commission research to guide our education activities including determining and validating:

- How we choose and prioritize target groups for our education activities
- the approaches we take to most effectively reach those groups
- the measures by which we determine if we have raised awareness or changed investor behavior

We will also use research to help

- identify problems in the marketplace,
- develop solutions to resolve those problems,
- set bench marks for evaluating the performance of our education programs, and
- rate the effectiveness of our current and proposed partnerships.

Responsible Division:
Communications and Education

Timing: By November 30, 2003, present a progress report on the research to the Commission.

Success Measure: Development of sound research criteria and gathering of initial data supporting our choices of target groups and timing of messages.

Problem 5: The need to assess the effectiveness of self-regulatory organizations

The number of SROs and the character and extent of SRO regulation in the securities markets have changed radically over the past several years. These changes are increasing our reliance on SROs to regulate conduct. We must ensure that reliance on the SROs is justified, and that:

- appropriate benchmarks are set and the SROs are held to those standards
- oversight of the SROs is co-coordinated and consistent within the BCSC and within the CSA
- the advantages of SRO regulation are achieved and the drawbacks are minimized
- the BCSC remains an effective agent of change in the national SRO context

Our reliance on SROs is a substitute for direct regulation. Therefore, the benchmarks for SRO performance and effectiveness should be the standards we set for ourselves. These must include standards for:

- timeliness in regulatory responsibilities such as the investigation of complaints or the processing of registrations
- effectiveness of disciplinary programs
- transparency and fairness of procedures
- plain language in written communication
- contribution to minimizing the costs of regulation.

In addition, the benchmarks and oversight mechanisms must recognize and mitigate the lack of independence that is inherent in all SROs, without undermining the benefits of flexibility and industry expertise that SROs can bring to bear.

We will analyze the effectiveness of each SRO's regulatory responsibilities:

- Registration and membership
- Sales Compliance
- Financial Compliance
- Investigations and Discipline
- Market Oversight
- Policy and rule development

The analysis will include recommendations for benchmarks in each area and set mechanisms for monitoring and follow-up.

Timing:

We will start with the IDA and deliver the completed analysis by May 31, 2003.

The other SROs will be subjected to a similar analysis following completion of the IDA review.

Responsible Divisions

Capital Markets Regulation (Lead)
Corporate Finance
Legal and Market Initiatives
Enforcement

Success Criteria for Problem 5

Changes in effectiveness of SROs will be measured against the benchmarks in subsequent audits.

SUMMARY FINANCIAL PLAN

Revenue

We project the following sources of revenue over the planning period:

Amounts in millions of dollars	Forecast 2002/2003	2003/2004	2004/2005	2005/2006
Prospectus and other distributions	8.4	11.7	13.2	13.5
Registration	6.0	4.4	7.5	7.7
Financial Filings	1.8	4.5	4.6	4.7
Investment and Other Income	0.9	0.6	0.9	0.9
Exemptions and Orders	0.7	0.6	0.6	0.6
Enforcement cost recoveries	0.1	0.2	0.2	0.2
Total operating revenue	17.9	22.0	27.0	27.6
Administrative penalties and designated settlements	0.4	0.2	0.2	0.2
Total Revenue	18.3	22.2	27.2	27.8

Government does not fund the BCSC. We derive our revenues from fees and other charges paid by market participants. Except for temporary fee reductions, our revenues rise and fall in proportion to market activity.

Significant revenue changes include:

Temporary Fee Reductions

The BCSC has attempted to operate on a breakeven basis, however we accumulated excess fee revenue during the strong financial market conditions of the late 1990s. We returned most of that surplus through a one-year, temporary fee reduction that began on January 7, 2002. In the 12-month period ended Jan. 6, 2003, the lower fees saved market participants about $10.5-million – a savings of $6.4-million by public companies and $4.1-million by individuals selling

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securities to the public. These lower fees also caused us to run a substantial deficit.

Our financial plan reflects the impact of these temporary fee reductions. The fee reductions overlapped fiscal 2002 and 2003, and reduced revenue in both of those years. The reductions will also affect fiscal 2004, because we defer and recognize registration revenues paid in advance over the related registration periods.

Prospectus and Other Distributions

For 2003/2004, we expect that revenues from prospectuses and other distributions will rise by 39%. This increase results from the ending of the fee reduction, and our expectations that the mutual fund industry will recover somewhat from the market uncertainty of 2002 (percentage of proceeds fee revenue forecast for 2002/2003: 2.9 million; 2003/2004: 3.4 million).

If revenue from the mutual fund industry does not recover at all in the upcoming fiscal years, the BCSC's deficit will increase from our projections by 0.5 million in 2003/2004, 2.3 million in 2004/2005, and 4.2 million in 2005/2006.

Registration

We expect that registration revenue will decline by $1.6 million in 2003/2004 mostly due to the impact of our temporary fee reductions. We have assumed zero percent growth in the total number of registrants in the upcoming fiscal year and two percent growth after that.

Financial Filings

We expect that financial filings revenue will increase by $2.7 million to $4.5 million in 2003/2004, as the impact of the fee reductions in this category will end. We have assumed a growth of four percent in the number of financial filings for 2004 and two percent thereafter.

Expenditures

Amounts in millions of dollars	Forecast 2002/2003	2003/2004	2004/2005	2005/2006
Ongoing operating expenses	25.0	25.1	26.6	27.3
Deregulation project expenses	1.7	1.9	0.3	-
Total operating expenses	26.7	27.0	26.9	27.3
Investor Education Expenses	0.2	0.4	0.3	0.4
Capital Expenditures	1.0	0.8	0.8	0.9

We have sought to contain expenditures over the planning period, without hampering our core objectives, including the deregulation initiative. We have assumed a three percent growth in salary expenses, which is partly offset by expected reductions in total staffing once the deregulation project ends and new national information systems projects become operational (for example: the national registration database). As a result, total operating expenses are not projected to increase significantly over the planning period.

Operating Surplus (Deficit)

Amounts in millions of dollars	Forecast 2002/2003	2003/2004	2004/2005	2005/2006
Reported Surplus (deficit)	(8.6)	(5.2)	-	0.1
Impact of fee reductions	6.7	3.3	0.3	0.3
Impact of deregulation project	1.7	1.9	0.3	-
Impact of education fund transactions	(0.4)	-	-	-
Surplus (deficit) from ongoing operations	(0.6)	-	0.6	0.4

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Impact of education fund transactions	(0.4)	-	-	-
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We have monitored our financial results to ensure that we are close to breakeven, after taking into account the temporary effects of our temporary fee reduction and deregulation project. Due to lower revenues from mutual fund distribution fees, we expect to incur a small deficit in fiscal 2003, even after deducting the impact of the fee reductions and the deregulation project.

The table above illustrates our reported surplus and deficit for financial reporting purposes, along with the financial impacts of the temporary effects of our fee reductions and Education Fund.

Reserves

Amounts in millions of dollars	Forecast 2002/2003	2003/2004	2004/2005	2005/2006
Fee Stabilization	12.0	10.6	10.6	10.6
General and Contributed	5.3	1.4	1.4	1.5
Investor Education	4.3	4.4	4.4	4.4
Total Reserves	21.6	16.4	16.4	16.5

Our general reserve will be eliminated during the planning period because of the temporary fee reductions and resulting deficits in the fiscal years 2003 and 2004. We must draw upon the fee stabilization reserve in 2003/2004. At the end of the planning period, we expect to have reserves totaling $16.5 million, which will be sufficient to support our operations for the foreseeable future.

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